Consolidated Financial Statements and Supplementary Information

St. Mary's Health System of America, Inc.
Member of Ascension Health, a subsidiary
of Ascension Health Alliance
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

St. Mary's Health System of America, Inc.

Consolidated Financial Statements
and Other Financial Information

Years Ended June 30, 2012 and 2011

Contents

Ernst & Young LLP
Suite 2600
111 Monument Circle
Indianapolis, IN 46204

Tel: +1 317 681 7000
Fax: +1 317 681 7216
www.ey.com

Report of Independent Auditors

The Board of Directors
St. Mary's Health System of America, Inc.

We have audited the accompanying consolidated balance sheets of St. Mary's Health System of America, Inc. as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of St. Mary's Health System of America, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of St. Mary's Health System of America, Inc.'s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of St. Mary's Health System of America, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Mary's Health System of America, Inc. at June 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of net cost of providing care of persons living in poverty and community benefit programs for the years ended June 30, 2012 and 2011, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 12, 2012

St. Mary's Health System of America, Inc.

Consolidated Balance Sheets

	June 30, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 14,394**	$ 31,193
Accounts receivable, less allowances for uncollectible accounts ($27,616 and $46,941 in 2012 and 2011, respectively)	**62,459**	62,961
Estimated third-party payor settlements	**9,346**	1,019
Inventories	**6,821**	5,917
Other receivables	**6,203**	4,373
Deferred costs for physician loan guarantees	**8,140**	3,390
Other	**5,607**	5,195
Total current assets	**112,970**	114,048
Assets limited as to use and other long-term investments	**8,181**	427,573
Interest in investments held by Ascension Health Alliance	**447,844**	–
Property and equipment, net	**109,668**	103,500
Other assets:		
Investment in unconsolidated entities	**826**	947
Deferred compensation	**7,730**	7,439
Deferred costs for physician loan guarantees	**7,581**	4,786
Other	**1,382**	1,965
Total other assets	**17,519**	15,137
Total assets	**$ 696,182**	$ 660,258

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Balance Sheets (continued)

	June 30, 2012	2011
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 1,113**	$ 1,031
Accounts payable and accrued liabilities	**52,357**	54,289
Estimated third-party payor settlements	**6,221**	2,097
Current portion of self-insurance liabilities	**1,285**	1,094
Physician loan guarantees	**8,140**	3,291
Other	**2,569**	1,930
Total current liabilities	**71,685**	63,732
Noncurrent liabilities:		
Long-term debt	**141,225**	142,338
Pension and other postretirement liabilities	**16,509**	12,732
Deferred compensation liability	**7,730**	7,439
Physician loan guarantees	**7,581**	3,788
Other	**3,471**	2,533
Total noncurrent liabilities	**176,516**	168,830
Total liabilities	**248,201**	232,562
Net assets:		
Unrestricted:		
Controlling interest	**437,145**	417,270
Noncontrolling interests	**3,812**	3,510
Unrestricted net assets	**440,957**	420,780
Temporarily restricted - controlling interest	**6,854**	6,746
Permanently restricted - controlling interest	**170**	170
Total net assets	**447,981**	427,696
Total liabilities and net assets	**$ 696,182**	$ 660,258

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Statements of Operations and Changes in Net Assets

	June 30, 2012	June 30, 2011
Operating revenue:		
Net patient service revenue	**$ 468,417**	$ 450,481
Other revenue	**18,042**	17,988
Income from unconsolidated entities	**1,514**	1,362
Net assets released from restrictions for operations	**1,310**	1,122
Total operating revenue	**489,283**	470,953
Operating expenses:		
Salaries and wages	**187,995**	186,289
Employee benefits	**39,090**	53,365
Purchased services	**44,638**	39,655
Professional fees	**21,015**	16,106
Supplies	**71,371**	74,969
Insurance	**2,404**	2,039
Bad debts	**787**	9,361
Interest	**5,298**	5,705
Depreciation and amortization	**14,569**	16,973
Medicaid Tax	**16,311**	–
Other	**40,378**	43,065
Total operating expenses before impairment and nonrecurring gains (losses), net	**443,856**	447,527
Income from operations before impairment and nonrecurring gains (losses), net	**45,427**	23,426
Impairment and nonrecurring (gains) losses, net	**(16,920)**	657
Income from operations	**62,347**	22,769
Nonoperating (losses) gains:		
Investment (loss) return	**(7,761)**	64,402
Income from unconsolidated entities	**7**	7
Other	**(736)**	(381)
Total nonoperating (losses) gains, net	**(8,490)**	64,028
Excess of revenues and gains over expenses and losses	**53,857**	86,797
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interests	**4,267**	4,508
Excess of revenues and gains over expenses and losses attributable to controlling interest	**$ 49,590**	$ 82,289

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)

	June 30, 2012	2011
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 49,590**	$ 82,289
Pension and other postretirement liability adjustments	**(21,910)**	25,610
Transfers to sponsor and other affiliates, net	**(7,910)**	(12,652)
Net assets released from restrictions for property acquisitions	**105**	576
Other	**–**	49
Increase in unrestricted net assets before effect of change in accounting principle, controlling interest	**19,875**	95,872
Cumulative effect of change in accounting principle	**–**	(7,093)
Increase in unrestricted net assets, controlling interest	**19,875**	88,779
Unrestricted net assets, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	**4,267**	4,508
Other	**(3,965)**	(4,336)
Increase in unrestricted net assets, noncontrolling interest	**302**	172
Temporarily restricted net assets:		
Contributions and grants	**1,715**	1,664
Net change in unrealized (loss) gain on investments	**(4)**	25
Investment return	**9**	12
Net assets released from restrictions	**(1,417)**	(1,698)
Other	**(195)**	(146)
Increase (decrease) in temporarily restricted net assets	**108**	(143)
Increase in net assets	**20,285**	88,808
Net assets, beginning of year	**427,696**	338,888
Net assets, end of year	**$ 447,981**	$ 427,696

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Statements of Cash Flows

	June 30, 2012	June 30, 2011
Operating activities		
Increase in net assets	**$ 20,285**	$ 88,808
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**14,569**	16,973
Provision for bad debts	**787**	9,361
Deferred pension costs	**21,910**	(20,341)
Interest, dividends, and net (gains) losses on investments	**7,765**	(29,631)
Loss on sale of assets, net	**736**	381
Impairment and nonrecurring expenses	**(16,920)**	657
Cumulative effect of changes in accounting principle	**–**	7,093
Transfers to sponsor and other affiliates, net	**7,910**	12,652
Net assets released for property acquisitions	**105**	576
(Increase) decrease in:		
Accounts receivable	**(285)**	(2,678)
Inventories and other current assets	**(7,896)**	(2,770)
Investments, including Interest in Investements held by Ascension Health Alliance	**(36,217)**	(53,540)
Other assets	**(2,382)**	(2,363)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(1,932)**	5,174
Estimated third-party payor settlements	**(4,203)**	2,733
Other current liabilities	**5,679**	2,404
Other noncurrent liabilities	**5,022**	3,966
Net cash provided by operating activities	**14,933**	39,455
Investing activities		
Property and equipment additions, net	**(22,692)**	(11,064)
Proceeds from sale of property and equipment	**6**	117
Acquisitions, net of cash acquired	**(105)**	(576)
Net cash used in investing activities	**(22,791)**	(11,523)
Financing activities		
Repayment of long-term debt	**(1,031)**	(1,167)
Transfers to sponsors and other affiliates, net	**(7,910)**	(12,652)
Net cash used in financing activities	**(8,941)**	(13,819)
Net (decrease) increase in cash and cash equivalents	**(16,799)**	14,113
Cash and cash equivalents at beginning of year	**31,193**	17,080
Cash and cash equivalents at end of year	**$ 14,394**	$ 31,193

See accompanying notes.

1. Organization and Mission

Organizational Structure

St. Mary’s Health System of America, Inc. (the Corporation) is a member of Ascension Health. In December 2011, Ascension Health Alliance became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 21 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension Health Alliance serves as the member or shareholder of various other subsidiaries. Ascension Health Alliance, its subsidiaries, and the Health Ministries are referred to collectively, from time to time, hereafter, as the System.

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, and the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province.

The Corporation, located in Evansville, Indiana, is a nonprofit acute care hospital system. The Corporation’s hospitals provide inpatient, outpatient, and emergency care services for the residents of southern Indiana, southeastern Illinois, and western Kentucky. Admitting physicians are primarily practitioners in the local area. The Corporation is related to Ascension Health’s other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

1. Organization and Mission (continued)

The Corporation includes the following not-for-profit hospitals and health care entities:

Acute Care Hospitals:

- *St. Mary's Medical Center (SMMC)*: SMMC is an acute care hospital located in Evansville, IN.

- *St. Mary's Warrick Hospital, Inc. (Warrick):* Warrick is a critical access hospital located in Boonville, IN, designated by Medicare as a critical access hospital.

Other Health Care Entities:

- *St. Mary's Foundation, Inc. (The Foundation):* The Foundation provides fund-raising efforts to support the charitable, religious, scientific, and educational purposes of charitable works of St. Mary's Healthcare System (SMHCS), in accordance with the mission and values of Ascension Health.

- *St. Mary's Physician Network, LLC (SPN1)*: SPN1 is the Corporation's primary and specialty care network of physicians who staff the hospitals, clinics, and outpatient service areas.

- *St. Mary's Primary Physician Network, LLC (SPN2):* SPN2 is the Corporation's network of primary care physicians who have independent offices throughout the service area.

- *St. Mary's Physician Health Group, Inc. (SMPHG):* SMPHG is the Corporation's multi-specialty physician network consisting primarily of internal medicine physicians.

- *St. Mary's Ohio Valley Heart Care LLC. (SMOVHC):* SMOVHC is the Corporation's physician practice, which is comprised of cardiology physicians and cardiovascular surgeons.

- *St. Mary's At Home, Inc. (SMAH):* SMAH is the Corporation's home health organization, which provides nursing and therapy services.

1. Organization and Mission (continued)

- *St. Mary's Building Corporation (SMBC):* SMBC manages the Corporation's office buildings.

- *St. Mary's Breast Center, LLC (SMFW):* SMFW provides breast screening and diagnostic services and an array of women's wellness services.

- *St. Mary's Warrick Emergency Medical Services (SMWEMS):* SMWEMS provides emergency medical and ambulance services to Warrick county Indiana.

- *Ambulatory Care Center, LLC (ACC):* ACC is a consolidated joint venture with area physicians, which provides outpatient surgery services.

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care, which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

1. Organization and Mission (continued)

- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $23,218 and $20,297 for the years ended June 30, 2012 and 2011, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation.

Investments in entities where the Corporation does not have operating control are recorded under the equity method of accounting. For entities recorded under the equity method of accounting, the following reflects the Corporation's interest in unconsolidated entities in the consolidated balance sheets, as well as income or loss for such entities included in the consolidated excess of revenues and gains over expenses and losses in the accompanying consolidated statements of operations and changes in net assets:

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

	2012	2011	2012	2011
Radiation Oncology Center of Southwest Indiana	**$ 384**	$ 515	**$ 1,009**	$ 788
St. Mary's Acute Dialysis Services, LLC	**376**	320	**425**	546
Other	**66**	112	**87**	35
	$ 826	$ 947	**$ 1,521**	$ 1,369

The Corporation's equity in the net income of unconsolidated entities is recorded in other operating revenue if the investment relates to providing health care services and is recorded in other nonoperating gains (losses) if the investment relates to activities not related to providing health care services.

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximates fair value. The fair values of financial instruments classified as other than current assets and current liabilities are disclosed in the Fair Value Measurements, Long-Term Debt, Pension Plans, and Related-Party Transactions notes.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less.

2. Significant Accounting Policies (continued)

Interest in Investments Held by Ascension Health Alliance, Investments and Investment Return

At June 30, 2011, and prior to April 2012, the Corporation held a significant portion of its investments through the Health System Depository (HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The HSD investments were managed primarily by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represented the Corporation's pro rata share of the HSD's funds held for participants. At June 30, 2011, the Corporation's investment in the HSD was $439,951, reflected in cash and cash equivalents, and assets limited as to use and other long-term investments in the consolidated balance sheet.

During the year ended June 30, 2012, the CHIMCO Alpha Fund, LLC (Alpha Fund) was created to hold primarily all investments previously held through the HSD. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension Health Alliance, acts as a manager and serves as the principal investment advisor for the Alpha Fund within established investment guidelines, including socially responsible investment guidelines. In April 2012, a significant portion of the HSD's funds held for participants was transferred to the Alpha Fund, in which Ascension Health Alliance invests funds in the Alpha Fund on behalf of the Corporation. As of June 30, 2012, the Corporation has an interest in investments held by Ascension Health Alliance, which is reflected in the consolidated balance sheet, and represents the Corporation's pro rata share of Ascension Health Alliance's investment interest in the Alpha Fund.

The Corporation also invests in cash and short-term investments, U.S. government obligations, corporate obligations, marketable equity securities, international securities, and real estate investments that are locally managed. These funds are held in the locally managed foundation where the Corporation has control over foundation assets.

The Corporation reports its interest in investments held by Ascension Health Alliance in the accompanying consolidated June 30, 2012 balance sheet as a current or long-term asset, based on liquidity needs as directed by the Corporation and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation. The Corporation reports its other investments, including Foundation investments, in the accompanying balance sheets, based upon the long or short term nature of the investments and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation.

2. Significant Accounting Policies (continued)

The Corporation's investments, including its interest in investments held by Ascension Health Alliance, are measured at fair value and are classified as trading securities. The Alpha Fund's and the HSD's investments, which are required to be recorded at fair value are classified as trading securities, and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; asset-backed securities; corporate and foreign fixed-income maturities; and equity securities, including private equity securities. The Alpha Fund's and HSD's investments also include alternative investments, including investments in real assets, hedge funds, private equity funds, commodity funds and private credit funds, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the HSD participated, in securities lending transactions, whereby a portion of its investments is loaned to selected brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns are comprised of dividends, interest, and gains and losses on the Corporation's investments, as well as the Corporation's return on its interest in investments held by Ascension Health Alliance and HSD, and are reported as nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing first-in, first-out (FIFO).

Intangible Assets

Intangible assets primarily consist of capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage (expensed), application development stage (capitalized), or post-implementation stage (expensed). Intangible assets are included in other noncurrent assets in the accompanying consolidated balance sheets and are comprised of the following:

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

	June 30 2012	June 30 2011
Capitalized computer software costs	**$ 7,754**	$ 7,063
Accumulated amortization of computer software costs	**(6,876)**	(6,258)
Other finite-life intangibles	**54**	54
Accumulated amortization of other finite life intangibles	**(20)**	(16)
Total intangible assets	**$ 912**	$ 843

Intangible assets with definite lives, consisting of capitalized computer software costs and other intangibles, are amortized over their expected useful lives.

Computer software costs are amortized over a range of 3 to 7 years. Other finite life intangibles include lease acquisition costs and are amortized over 15 years. Total amortization expense for 2012 and 2011 was $622 and $991, respectively.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2012 and 2011 was $13,947 and $15,982, respectively.

Estimated useful lives by asset category are as follows: land improvements – 20 to 25 years; buildings – 30 to 40 years; and equipment – 3 to 20 years. Interest costs incurred as part of related construction are capitalized during the period of construction.

Noncontrolling Interest

The accompanying consolidated financial statements include all assets, liabilities, revenue and expenses of less than 100% owned or controlled entities the Corporation controls, in accordance with applicable accounting guidance. Accordingly, the Corporation has reflected a noncontrolling interest for the portion of net assets not owned or controlled by the Corporation separately on the accompanying consolidated balance sheets.

2. Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor’s wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Performance Indicator

The performance indicator is excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, contributions of property and equipment, and other transfers between funds.

Operating and Nonoperating Activities

The Corporation’s primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation’s primary mission are considered to be nonoperating, consisting primarily of investment returns (losses) and income from certain unconsolidated joint ventures, offset by grants.

2. Significant Accounting Policies (continued)

Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided, excluding the provision for bad debt expense and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately $3,761 and $931 for the years ended June 30, 2012 and 2011, respectively.

During 2012 and 2011, approximately 31% of net patient service revenue was received under the Medicare program. During 2012 and 2011, approximately 7% and 5%, respectively, was received under various state Medicaid programs. The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of net accounts receivable at June 30, 2012, include Medicare (15%), Medicaid (9%), Blue Cross (16%), managed care and commercial (29%), and self-pay (25%). Significant concentrations of net accounts receivable at June 30, 2011, include Medicare (14%), Medicaid (7%), Blue Cross (13%), managed care and commercial (21%), and self-pay (40%).

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been

2. Significant Accounting Policies (continued)

Followed, in accordance with the Corporation's policies. During 2012 and 2011, the Health Ministry recharacterized certain prior-year bad debt write-offs to charity care, totaling $11,820 and $11,698, respectively.

The Corporation has an agreement to transfer certain patient receivables with recourse to a third party in exchange for cash at a discounted rate. The Corporation is deemed to have retained the risk of ownership of the receivables, which serve as collateral for the cash advanced to the Corporation, and the Corporation continues to reflect the receivables and related liability to the third party on its consolidated balance sheets. As of June 30, 2012 and 2011, receivables subject to this arrangement were $3,043 and $2,573, respectively, and are included in other current assets. The Corporation estimates its recourse obligation, which is reflected in accounts payable and other accrued liabilities.

Hospital Assessment Fee

The Indiana Hospital Association (IHA) and the Office of Medicaid Policy and Planning (OMPP) worked together to develop and implement a hospital assessment fee program as enacted by the 2011 Session of the Indiana General Assembly. The Centers for Medicare and Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with an effective date of July 1, 2011. The program will continue through June 30, 2013. Under this program, OMPP will collect an assessment fee from eligible hospitals. The fee will be used, in part, to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of disproportionate share hospital (DSH) payments. During 2012, the Corporation incurred $16,311 in Medicaid tax under this program, which is reflected in total operating expenses in the accompanying 2012 consolidated statement of operations and changes in net assets. The Corporation earned additional Hospital Assessment Fee (HAF) reimbursement of $21,228, which is reflected in net patient service revenue in the accompanying 2012 consolidated statement of operations and changes in net assets.

2. Significant Accounting Policies (continued)

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Corporation recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments receivable totaling $1,335 for the year ended June 30, 2012, are included in total operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Impairment and Nonrecurring Gain

Long-lived and intangible assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value, based on discounted net cash flows or other estimates of fair value.

During the years ended June 30, 2012 and 2011, the Corporation recorded total impairment expense, offset by nonrecurring gains (losses) of $16,920 and ($657), respectively. For the year ended June 30, 2012, this amount was comprised of long-lived and intangible asset impairments of approximately ($3,057) related to the termination of an information technology service contract, management’s decision to cease previously planned technology, and impairment of an office building. Nonrecurring pension curtailment gain of approximately $19,977 is also included in 2012. For the year ended June 30, 2011, this amount was comprised of long-lived asset impairments of approximately ($450) related to asset impairment and ($207) related to changes in business operations.

2. Significant Accounting Policies (continued)

Income Taxes

The member health care entities of the Corporation, an Indiana not-for-profit corporation, are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Health Ministry's for-profit subsidiaries have historically generated net operating losses (NOL's). Management does not expect to utilize such NOL's and, as a result, has recorded a full valuation allowance against the NOL's.

Accordingly, the accompanying consolidated financial statements do not include any provision for federal or state income taxes.

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Corporation. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Corporation.

Reclassifications

Certain reclassifications were made to the accompanying 2011 consolidated financial statements to conform to the 2012 presentation. Such reclassifications had no impact on the change in net assets.

2. Significant Accounting Policies (continued)

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition or disclosure in the financial statements as of the balance sheet date. For the year ended June 30, 2012, the Corporation evaluated subsequent events through September 12, 2012, representing the date on which the financial statements were available to be issued. Subsequent events that required recognition or disclosure in the financial statements are disclosed in the Subsequent Events note.

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued its accounting standards update (ASU) entitled *Improving Disclosure About Fair Value Measurements* in ASU No. 2010-06. This standard update clarified certain fair value measurement guidance and required that additional fair value measurement disclosures be made. The Corporation adopted a portion of this guidance during the fiscal year ended June 30, 2010, and the remaining requirements as of July 1, 2011, as required. The disclosure updates adopted as of July 1, 2011, result in the provision of additional detail within the reconciliation of beginning and ending balances for assets and liabilities measured at fair value, whose fair value inputs are based on significant unobservable inputs (i.e., Level 3 assets and liabilities). Those additional disclosure requirements are provided in the Fair Value Measurements notes. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

In August 2010, the FASB issued its accounting standards update entitled *Measuring Charity Care for Disclosure* in ASU No. 2010-23. The provisions of this update require health care entities to disclose charity care based on cost measurements, defined as the direct and indirect costs of providing the charity care. The Corporation adopted this guidance on July 1, 2011; however, as the Corporation has historically used cost-based measure for the calculation and disclosure of its charity care, the adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

2. Significant Accounting Policies (continued)

Also, in August 2010, the FASB issued its accounting standards update entitled *Presentation of Insurance Claims and Related Insurance Recoveries* in ASU No. 2010-24. This update applies to health care entities and clarifies that the liabilities associated with malpractice claims or other similar liabilities must not be presented net of related anticipated insurance recoveries. Additionally, this guidance requires that such claim liabilities be calculated without consideration of insurance recoveries. The Corporation adopted the guidance in this accounting standards update as of July 1, 2011. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07), which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to the FASB's Accounting Standards Codification™ (the Codification, or ASC) Topic 350, *Intangibles – Goodwill and Other* (ASC Topic 350), and ASC Topic 810, *Consolidation* (ASC Topic 810), to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. ASC Topic 810 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of net assets. The Health Ministry adopted the guidance relative to ASU 2010-07 as of July 1, 2010. The adoption of this guidance resulted in goodwill impairment of $7,093, recorded as a cumulative effect of change in accounting principle on the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2011.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)*. This accounting standards update provides clarifications to certain existing fair value measurements guidance and includes updated guidance for certain fair value measurement principles and disclosures. The Corporation adopted this guidance as of January 1, 2012. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

2. Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the accompanying consolidated statement of operations rather than as operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. The Corporation plans to adopt the provisions of this accounting standards update for the year ended June 30, 2013, and retrospectively apply the presentation requirements to all periods presented.

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-term investments

At June 30, 2012, the Corporation's investments are comprised of its interest in investments held by Ascension Health Alliance and certain other investments, including investments held and managed by the Corporation's foundations. At June 30, 2011, the Corporation's investments were comprised of the Corporation's pro rata share of the HSD's funds held for participants and certain other investments, including investments held and managed by foundations. Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use primarily include investments restricted by donors. In June 2011, the Board of Trustees released the board designation on a majority of the funded depreciation accounts. The Corporation's cash, cash equivalents, interest in investments held by Ascension Health Alliance, and assets limited as to use and other long-term investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	June 30	
	2012	**2011**
Cash and cash equivalents	**$ 14,394**	$ 31,193
Assets limited as to use:		
Temporarily or permanently restricted	**8,181**	8,034
Other long-term investments	**–**	419,539
Total assets limited as to use and other long-term investments	**22,575**	458,766
Interest in investments held by Ascension Health Alliance	**447,844**	–
Total	**$ 470,419**	$ 458,766

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-term investments (continued)

The composition of cash and investments classified as cash and cash equivalents, short-term investments, assets limited as to use, and other investments is summarized as follows:

	June 30	
	2012	**2011**
Cash and cash equivalents	**$ 8,149**	$ 11,194
U.S. government obligations	**718**	839
Corporate and foreign fixed-income investments	**1,949**	1,428
Equity securities	**4,888**	5,154
Other assets limited as to use	**200**	200
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use, and other long-term investments	**15,904**	18,815
Interest in investments held by Ascension Health Alliance	**454,515**	–
Pro rata share of HSD funds held for participants	**–**	439,951
Cash and cash equivalents, short-term investments, interest in investments held by Ascension Health Alliance, assets limited as to use, and other long-term investments	**$ 470,419**	$ 458,766

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-term investments (continued)

As of June 30, 2012 and 2011, the composition of total Alpha fund and HSD investments is as follows:

	June 30	
	2012	**2011**
Cash, cash equivalents, and short-term investments, including pooled short term investment funds	**4.7%**	6.9%
U.S. government obligations	**32.1%**	27.4%
Asset-backed securities	**10.3%**	15.8%
Corporate and foreign fixed-income maturities	**9.0%**	11.3%
Equity, private equity, and other investments	**43.9%**	38.6%
	100.0%	100.0%

Investment return recognized by the Corporation is summarized as follows:

	Year Ended June 30	
	2012	**2011**
Return on interest in investments held by Ascension Health Alliance	**$ (7,938)**	$ 63,249
Interest and dividends	**254**	208
Net gains (losses) on investments reported at fair value	**(72)**	957
Total investment return	**$ (7,756)**	$ 64,414
Investment return included in non-operating income	**$ (7,761)**	$ 64,402
Increase (decrease) in restricted net assets	**5**	12
Total investment return	**$ (7,756)**	$ 64,414

4. Fair Value Measurements

The Corporation categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Corporation follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets or exchanges or prices quoted for identical or similar investments in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

4. Fair Value Measurements (continued)

As of June 30, 2012 and 2011, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables on the following pages utilize the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating, interest rate, and par value. Cash and cash equivalents and additional short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Guaranteed pooled fund

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

U.S. government obligations

The fair value of investments in U.S. government obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark, constant maturity curves, and spreads.

Corporate and foreign fixed-income maturities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

4. Fair Value Measurements (continued)

Equity securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers, based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Other investments

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Assets Limited as to Use notes, the Corporation has an investment in the Alpha Fund, HSD, and certain other investments, such as those investments held and managed by foundations. As of June 30, 2012, 17%, 52%, and 31% of total Alpha Fund and HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 0%, 100 %, and 0% of total Alpha Fund and HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2, and Level 3 inputs, respectively.

As of June 30, 2011, 31%, 67%, and 2% of total HSD assets that were measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 1%, 84%, and 15% of total HSD liabilities that were measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2012, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash and cash equivalents	$ –	$ –	$ –	$ –
Short-term investments	172	121	–	293
U.S. government obligations	–	718	–	718
Corporate and foreign fixed-income investments	–	1,949	–	1,949
Equity investments	4,888	–	–	4,888
Other Investments	–	–	200	200
Subtotal of assets at fair value	$ 5,060	$ 2,788	$ 200	8,048
Assets not measured at fair value				7,856
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use and other long term investments				$ 15,904
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	$ 4,876	$ –	$ –	$ 4,876
Guaranteed pooled fund	$ –	$ –	$ 2,854	$ 2,854

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2011, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Cash and cash equivalents	$ 10,907	$ –	$ –	$ 10,907
Short-term investments	167	120	–	287
U.S. government obligations	–	839	–	839
Corporate and foreign fixed-income investments	–	1,428	–	1,428
Equity investments	5,154	–	–	5,154
Other Investments	–	–	200	200
Subtotal of assets at fair value	$ 16,228	$ 2,387	$ 200	$ 18,815
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	$ 5,151	$ –	$ –	$ 5,151
Guaranteed pooled fund	$ –	$ –	$ 2,288	$ 2,288

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

During the years ended June 30, 2012 and 2011, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following. Transfers in or out of Level 3 are recognized as of the beginning of the reporting period: The balance at July 1, 2010, was $2,036; purchases, issuances, and settlements were $309; and transfers into Level 3 were $143. The balance at July 1, 2011, was $2,488; purchases, issuances, and settlements were $375; and transfers into Level 3 were $191, resulting in an ending balance at June 30, 2012, of $3,054.

(Dollars in Thousands)

5. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2012	**2011**
Intercompany debt with Ascension Health Alliance, payable in installments through November 2051; interest (3.79% and 3.88% at June 30, 2012 and 2011, respectively) adjusted based on the prevailing blended market interest rate of underlying debt obligations	**$ 142,338**	$ 143,369
Less current portion	**1,113**	1,031
Long-term debt, less current portion	**$ 141,225**	**$ 142,338**

Scheduled principal repayments of long-term debt are as follows:

Year ending June 30:	
2013	$ 1,113
2014	2,120
2015	2,216
2016	1,862
2017	2,335
Thereafter	132,786
Total	$ 142,338

Certain members of Ascension Health Alliance formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as a senior obligated group member, senior designated affiliate, or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, Ascension Health Alliance may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including repayment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited

5. Long-Term Debt (continued)

designated affiliate agreement and promissory note with Ascension Health Alliance with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. The Corporation is a senior obligated group member under the terms of the Senior MTI.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates and, subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (the Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, Ascension Health Alliance may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligates group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with Ascension Health Alliance, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation. The Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are, in turn, loaned to the Senior and Subordinate Credit Group members, subject to a long-term amortization schedule of 1 to 39 years.

5. Long-Term Debt (continued)

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member.

The carrying amounts of intercompany debt with Ascension Health Alliance and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2012, the Senior Credit Group has a line of credit of $1,000,000, which may be used as a source of funding for unremarketed variable rate debt (including commercial paper) or for general corporate purposes, toward which bank commitments totaling $1,000,000 extend to November 9, 2014. As of June 30, 2012 and 2011, there were no borrowings under the line of credit.

As of June 30, 2012, the Subordinate Credit Group has a $50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $50,000 extends to December 27, 2012. As of June 30, 2012, $26,607 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds of Senior and Subordinate Credit Group members is $4,451,285, which represents 41% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2012.

5. Long-Term Debt (continued)

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements, such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt, which can be as short as 30 days or as long as 27 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under their guarantees and other commitments at June 30, 2012, is approximately $170,000.

During the years ended June 30, 2012 and 2011, interest paid was approximately $5,199 and $5,499, respectively.

6. Pension Plans

The Corporation participates in the Ascension Health Pension Plan and the Ascension Health Defined-Contribution Plan. Details of these plans are as follows.

Ascension Health Pension Plan

The Corporation participates in the Ascension Health Pension Plan (the Ascension Plan), which is a noncontributory defined-benefit pension plan, which covers substantially all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed-income funds and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of $1,770 in 2012 and $9,694 in 2011 was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined, while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

6. Pension Plans (continued)

During the year ended June 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects the Ascension Plan, as well as provides an enhanced comprehensive defined-contribution plan. These changes will become effective January 1, 2013. These changes resulted in the Corporation's recognition of a nonrecurring curtailment gain of $19,977 during the year ended June 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of $14,340. The projected benefit obligation is included in pension and other postretirement liabilities in the accompanying consolidated balance sheets.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of June 30, 2012, the Ascension Plan had a net unfunded liability of $267,828. The Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2012 and 2011, was $16,509 and $12,732, respectively. As a result of updating the funded status of the Plan, the Corporation's allocated share of the Plan's net funded liability was reduced by $21,713 and $25,610 during 2012 and 2011, respectively. These transfers are included in pension and other postretirement liability adjustments in the accompanying consolidated statements of operations and changes in net assets.

As of June 30, 2012 and 2011, the fair value of the Ascension Plan's assets available for benefits was $3,948,000 and $3,616,000, respectively. As discussed in the Fair Value Measurements note, the Corporation, as well as the System, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2012, 16%, 51%, and 33% of the Ascension Plan's assets, which are measured at fair value on a recurring basis, were categorized as Level 1, Level 2, and Level 3, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 6%, 87%, and 7% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2012. Additionally, as of June 30, 2011, 27%, 45%, and 28% of the Ascension Plan's assets, which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3 investments, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 0%, 17%, and 83% were categorized as Level 1, Level 2, and Level 3 investments, respectively, as of June 30, 2011.

6. Pension Plans (continued)

Ascension Health Defined-Contribution Plan

The Corporation participates in the Ascension Health Defined-Contribution Plan (the Defined-Contribution Plan), a contributory and noncontributory defined-contribution plan sponsored by Ascension Health, which covers all eligible associates. There are three primary types of contributions to the Defined-Contribution Plan: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in all employer contributions immediately. Defined-contribution expense, representing both employer automatic contributions and employer matching contributions, was $3,356 and $3,914 for the years ended June 30, 2012 and 2011, respectively.

7. Self-Insurance Programs

The Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2012 and 2011.

In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

7. Self-Insurance Programs (continued)

Professional and General Liability Programs

The Corporation participates in Ascension Health's professional and general liability self-insured program. Professional liability coverage is provided on an occurrence basis through a wholly owned onshore trust with a self-insured retention of $250 per occurrence and up to $7,500 in aggregate in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary self-insured limit. General liability coverage is provided on a claims-made basis through a wholly owned on-shore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of $10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to $185,000. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers. The Corporation has a deductible of up to $100 per claim for both professional and general liability claims, depending on the size of the hospital. One entity obtains professional liability coverage through a commercial policy on a claims-made basis with limits up to $250 per occurrence and $750 in aggregate, in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary limit.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense through Ascension Health of $1,620 and $1,348 for the years ended June 30, 2012 and 2011, respectively. Included in current self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately $1,285 and $1,094 at June 30, 2012 and 2011, respectively.

Workers' Compensation

The Corporation participates in Ascension Health's workers' compensation program, which provides occurrence coverage through a grantor trust. The trust provides coverage up to $1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

(Dollars in Thousands)

7. Self-Insurance Programs (continued)

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of $996 and $987 for the years ended June 30, 2012 and 2011, respectively.

Medical and Dental Claims

The Corporation is self-insured for medical and dental claims. The Corporation estimates its liability for covered medical and dental claims, including claims incurred but not reported, based upon historical costs incurred and payment processing experience. At June 30, 2012 and 2011, the liability for such covered medical and dental claims was $2,689 and $3,676, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

8. Lease Commitments

Future minimum payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2013	$ 8,233
2014	7,008
2015	5,626
2016	4,527
2017	4,209
Thereafter	11,452
Total	$ 41,055

(Dollars in Thousands)

8. Lease Commitments (continued)

In addition, the Corporation is a lessor under certain operating lease agreements, primarily ground leases related to third-party owned medical office buildings on land owned by the Corporation. The Corporation also leases space to others in some buildings it owns. Future minimum rental receipts under all noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:		
2013	$	890
2014		590
2015		394
2016		208
2017		152
Thereafter		5,521
Total	$	7,755

Rental expense under operating leases amounted to $10,085 and $9,478 in 2012 and 2011, respectively.

9. Related-Party Transactions

The Corporation utilized various centralized programs and overhead services of the System or its other sponsored organizations, including risk management, retirement services, treasury, debt management, executive management support, internal audit services, administrative services, biomedical engineering, and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Corporation. Allocations are based on relevant metrics, such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately $2,914 and $2,846 for the years ended June 30, 2012 and 2011, respectively.

9. Related-Party Transactions (continued)

In addition to the charges discussed above, the Corporation made payments to the System of $6,872 and $7,440 for the years ended June 30, 2012 and 2011, representing the Corporation's share of costs to fund a System-wide information technology and process standardization project that is expected to continue through December 2014. Also, during the years ending June 30, 2012 and 2011, the Corporation transferred cash and investments of $501 and $4,809, respectively, in support of Ascension Health's strategic initiatives and Sister services. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

The Corporation utilizes professional services from another Ascension Health ministry, St. Vincent Health, Inc., (St. Vincent) in Indianapolis. The expenses incurred for the years ended June 30, 2012 and 2011, were $1,532 and $1,458, respectively.

10. Contingencies and Commitments

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated balance sheets.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries, in accordance with national coverage criteria. In connection with this nationwide review, the Corporation will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2004 and extending through the present time. Through September 12, 2012, the DOJ has not asserted any claims against the Corporation. Ascension Health and the Corporation continue to fully cooperate with the DOJ in its investigation.

10. Commitments and Contingencies (continued)

The Corporation enters into agreements with non employed physicians and other groups that include minimum revenue guarantees. The Corporation has also entered into agreements with physician groups to provide emergency room and anesthesia coverage in areas with demonstrated community need. The Corporation guarantees to cover the costs of providing coverage if there are not sufficient patient billings that exceed the cost of providing the coverage. The carrying amounts of the liability for the Corporation's obligation under these guarantees were $15,721 and $7,079 at June 30, 2012 and 2011, respectively, and are included in current and noncurrent Physician Loan Guarantee Liabilities in the accompanying consolidated balance sheets.

At June 30, 2012, the maximum exposure to the Corporation for the Anesthesia guarantee is $20,186, and the exposure for the Emergency physician group guarantee is unlimited. The Corporation is entitled to proceeds of receivables collected to offset the guarantee amounts paid relative to the Emergency physician group, which reduces the total maximum guarantee amount.

11. Subsequent Events

The Corporation transferred its corporate membership from Ascension Health to St. Vincent effective July 1, 2012. As of this date, St. Vincent serves as the sole corporate member of the Corporation.

Supplementary Information

St. Mary's Health System of America, Inc.

Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs

(Dollars in Thousands)

The net cost, excluding the provision for bad debt expense, of providing care of persons living in poverty and community benefit programs is as follows:

	Year Ended June 30	
	2012	**2011**
Traditional charity care provided	**$ 23,218**	$ 20,297
Unpaid cost of public programs for persons living in poverty	**18,022**	26,016
Other programs for persons living in poverty and other vulnerable persons	**624**	664
Community benefit programs	**1,557**	1,116
Care of persons living in poverty and community benefit programs	**$ 43,421**	$ 48,093

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.